



February 6, 2023

Submitted Via Email to regs.comments@federalreserve.gov

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Principles for Climate-Related Financial Risk Management for Large Financial Institutions (Docket No. OP-1793)

Dear Ms. Misback,

On behalf of ANB Bank (ANB), thank you for the opportunity to respond to the Principles for Climate Related Financial Risk Management for Large Financial Institutions (Docket No. OP-1793) issued by the Board of Governors of the Federal Reserve System (the Board).

ANB BANK BACKGROUND:

ANB is a \$3.2 billion community bank headquartered in Denver, Colorado. ANB consists of 29 locations in the United States, specifically in Colorado and Wyoming. The bank serves a number of distinct and diverse communities, ranging from large metropolitan cities in Colorado, to rural communities in Wyoming and western Colorado, to high-cost resort communities in Colorado. As a community bank, ANB strives to meet the diverse borrowing needs of our customers in each unique community we serve, offering a wide range of lending solutions from mortgage and small business loans to commercial real estate and agriculture loans. We also provide energy financing, focused on traditional oil and gas production as well as renewable energy.

ANB BANK RISK MANAGEMENT:

ANB intentionally maintains a low to moderate risk profile, and our risk management practices closely align with our commitment to serving our customers and communities. We have developed risk strategies, policies, procedures, and limits to monitor and manage all lending risks. Our localized presence in the communities we serve helps us understand and anticipate risks that large, national organizations without a local presence may not envision. These risks include those related to weather or climate and indirect climate-change risks due to regulatory change or changes in consumer preferences.

RECOMMENDATIONS:

ANB recognizes the importance of adequately preparing for the potential impact of climate change and the transition to a low carbon economy. As such, the bank is supportive of the Board's Principles for Climate Risk Management for Large Financial Institutions and offers two primary recommendations:

- A) Maintain the proposed asset size threshold of \$100 billion and formally recognize that smaller institutions with localized knowledge of their markets adequately manage climate-related risk through existing risk-management frameworks.
- B) Consider the potential for unintended consequences in both design and implementation, and provide additional guidance to mitigate unintended impacts to communities, industry sectors, and the economy as a whole.

\$100 Billion Asset Size Threshold

Community banks have a different level of climate risk when compared to the largest financial institutions with a national presence. For community banks, climate risk is more localized and understandable. Serving local communities allows community/regional banks to directly manage localized climate risks without applying a "one-size-fits-all" risk management framework.

As an example, ANB has developed policies and procedures to manage the physical risk of weather and climate events. Extreme weather events, such as floods and forest fires, present the highest risk to our borrowers and their property within our footprint. As a result, ANB has implemented detailed property and collateral insurance procedures to ensure loans are sufficiently insured before originating and throughout the life of the loan. This direct approach to risk management allows the bank to be more specific in helping to protect our borrower's property against weather or climate risks.

Like the bank's risk mitigation practices on an individual loan level, the bank's overall credit risk governance framework is proven, well thought out, and designed to maintain a low-to-moderate risk profile. This framework includes (1) a quarterly Allowance for Loan Loss Reserves analysis which incorporates local economic, industry sector, and real estate market analysis, (2) a quarterly liquidity analysis, (3) a semi-annual loan portfolio concentration analysis, and (4) numerous monthly loan reports presented to the bank's Board of Directors. The requirement to complete similar reports and analyses specifically for climate risks would be burdensome and result in duplication of risk analysis and mitigation efforts.

While all financial institutions have climate-related risks, the proposed principles must recognize that community banks have comprehensive risk-management practices that incorporate "on-the-ground" knowledge of local markets and address many potential risk factors, including those associated with climate change. As such, ANB strongly recommends that the Board maintain the proposed asset size threshold of \$100 billion and encourages the Board to incorporate language in the principles that properly recognizes the localized risk management strategies of community banks and diminishes the temptation to reduce the asset size threshold over time.

Consider Unintended Consequences

The statement of principles must consider the potential for unintended consequences. We are concerned that the principles could be interpreted to encourage financial institutions to avoid lending or providing other banking services to industries associated with climate change, such as the oil and gas industry; any regulatory directives related to climate-risk management must be thoughtful in both design and implementation in order to avoid unintended consequences, such as limiting credit availability to "disfavored" industries.

For example, if an outcome of the statement of principles is a significant reduction in the availability of credit to the oil and gas industry, there will be severe follow-on effects to local communities and related industries (such as agriculture) that are dependent on the oil and gas industry. Smaller, rural

communities served by community banks such as ANB will suffer the greatest economic harm and often have the least resources to cope. Community banks should be a lifeline for rural communities, but many of these communities are already “banking deserts” due to consolidation. Negatively impacting industries like oil and gas or agriculture will make this problem much worse, leaving many communities stranded financially at a time of great need.

Additionally, the needs of a community are defined by their location and local industries that have evolved over many years. These needs are not by choice and not easy to change. Community banks like ANB are committed to meeting the needs of their local communities, even when those needs are unpopular with Washington politicians and regulators. To the extent that the statement of principles becomes an “unofficial” examiner expectation for smaller banks, the ability of community banks like ANB to serve our communities will be limited.

Unintended consequences such as those noted above may result in both localized and systemic risks that are not easily predicted or mitigated. ANB strongly encourages the Board to incorporate language in the principles that (1) clarifies that the principles are not intended to discourage financial institutions from reducing or withholding services from any particular community or industry sector, and (2) discourages examiners from unofficially applying the principles to smaller institutions.

CONCLUSION

In conclusion, ANB recognizes the importance of these risk management principles for large, systemically important financial institutions. However, expanding these requirements to smaller financial institutions would be burdensome, duplicative, and unnecessary.

Additionally, unintended consequences must be avoided. While climate change is a source of risk that must be managed, withdrawing support for disfavored industries would likely have significant and harmful downstream impacts to local communities as well as the community banks committed to serving those communities. The statement of principles must thoughtfully consider potential unintended consequences.

On behalf of ANB, thank you again for the opportunity to provide input on this rulemaking, and we would welcome the opportunity to discuss these comments further. If you have any questions or would like clarification regarding anything contained in our comments, please don't hesitate to contact me at 303-394-5045 or via email at shawn.harrison@anbbank.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Harrison", with a stylized, flowing script.

Shawn Harrison
First Senior Vice President
Senior Credit Officer